

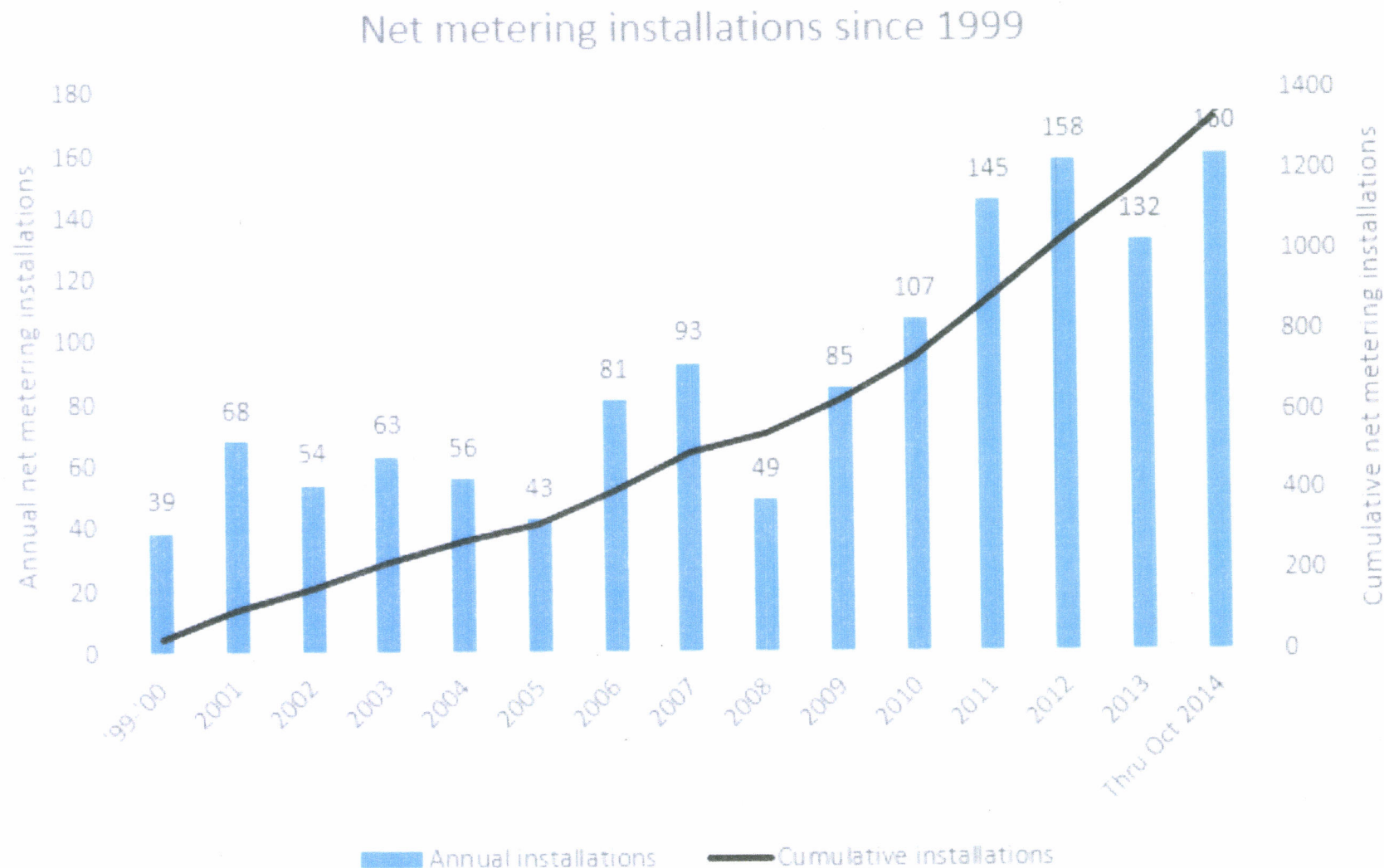
# **Net Metering: An Overview of Policy in Montana**



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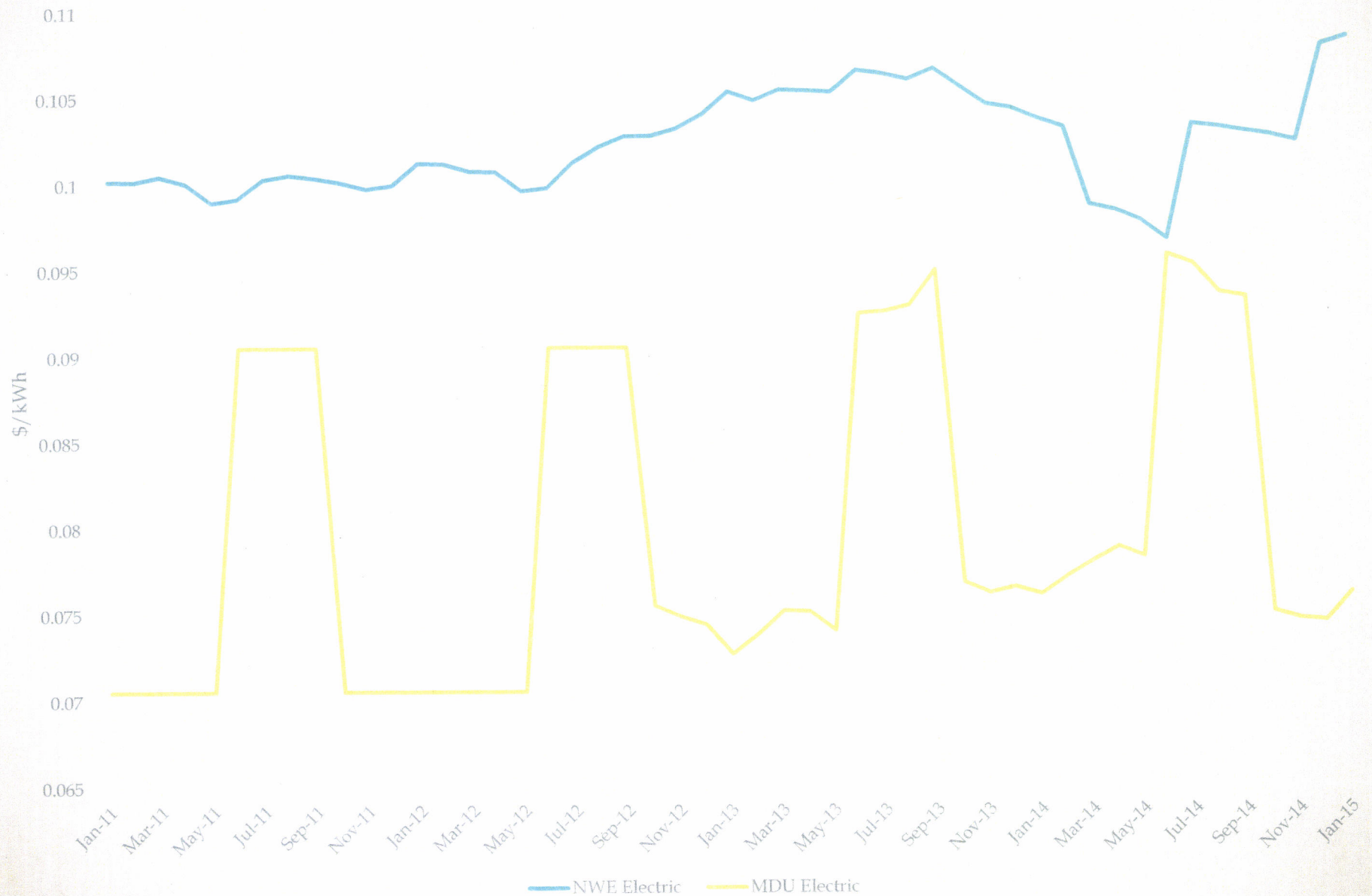
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# NorthWestern Energy Net Metering Customers Since 1999



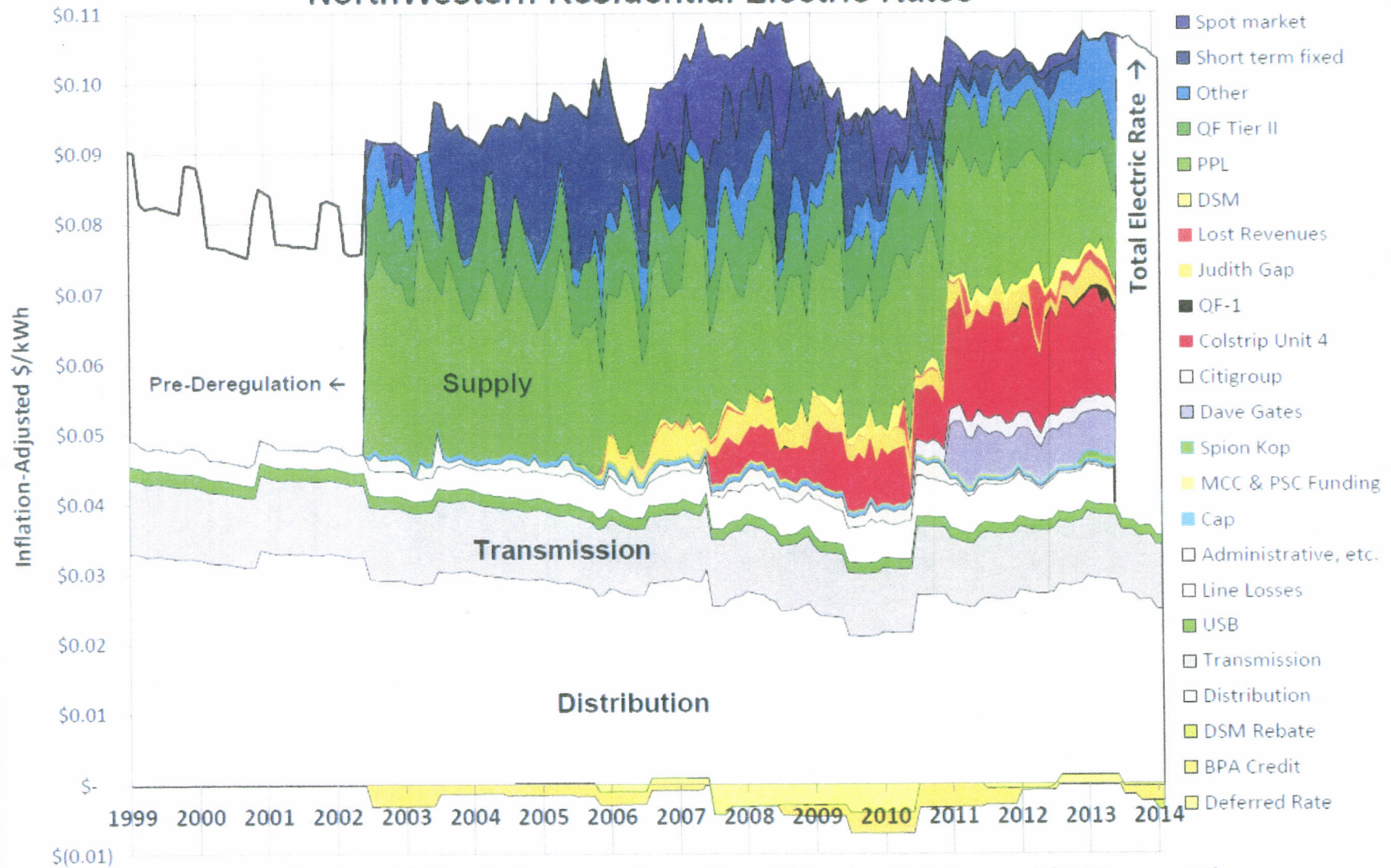
Only four of MDU's customers (two residential, two commercial) currently net-meter, all with wind generators.

## NorthWestern Energy and Montana-Dakota Utilities Total Retail Rate 2011-2015





## NorthWestern Residential Electric Rates\*



# Is Net-Metering a Subsidy for Customer-Generators?

- **Short answer:** At the moment, neither the PSC nor the Legislature have the data necessary to determine the answer to that question.
- Determining whether the payment to customer-generators constitutes a subsidy requires marginal cost of service information: What energy does the utility not have to purchase, and what infrastructure improvements can it avoid, because of customer-generators?\*
- Analyzing subsidies is also complicated because even without net metering some customers cost more to serve than they pay, e.g., urban vs. rural customer.



\* "The practically achievable benchmark for efficient pricing is more likely to be a type of average long-run incremental cost...[which] would be based on (1) the average incremental variable costs of those added sales and (2) estimated additional capital costs per unit, for the additional capacity that will have to be constructed if sales at that price are expected to continue over time or to grow."

Alfred Kahn, *The Economics of Regulation*

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## Impact of Potential Subsidy

- NWE's rate associated with Transmission & Distribution is currently 29% of the total \$0.108404 per kWh rate
- NWE net-metering customers' output is 7,351 MWh, or 0.29% of what the Hydros generate.
  - Net-metering customers cause NWE not to collect (*or to collect from other customers*) about \$300,000 of revenue associated with transmission and distribution costs.
  - This is 0.13% of total NWE distribution revenues and only 0.04% of NWE's roughly \$700 million total electric utility revenue in 2013.
- MDU net-metering customers generate only 7.8 kW, 0.0014% of MDU's total portfolio.

## What can the PSC do to remedy a subsidy, if necessary?

- The PSC could establish a separate class of customers that pay a different tariff than other classes (e.g., customer-generators vs. residential vs. commercial). MCA 69-3-306
- The PSC could establish a rate design that collects all transmission & distribution costs in a fixed monthly fee, rather than a per-kWh charge, for all customers.
- The PSC could impose “direct costs associated with interconnecting and administering net metering systems” directly upon those customers (i.e., charge them a greater, per-monthly fee than other customers pay). MCA 69-8-602



## Conclusions

- Currently, net metering is a small program that has grown steadily in the past several years.
- The “missing revenue” created by customer-generators is a rounding error in Montana public utilities’ total revenues.
- Legislative expansion of net metering may increase interest in the program (especially from businesses) and raise the issue to a level where allegations of a ‘subsidy’ should be addressed.
- The PSC appears to have the authority to remedy a cross-subsidization, but no utility has asked the PSC to do so or presented a study suggesting the degree of the possible subsidy.
- The PSC is always willing to consider holding informal roundtables, conduct rulemakings, or hear applications for ratemaking, within our legal authority.



## Appendix: Issues & Concerns

- Does the net-metering program treat customer-generators, the utility, and the utility's other customers fairly?
- What rate/credit should be paid to net-metering customers (full retail rate, energy supply cost, avoided cost?)
- Does net metering avoid (or cause) the need for additional infrastructure improvements?
- Are net-metering's issues magnified when the size of the systems increases?
- Should there be a 'pause' button in net-metering law (i.e., if it grows quickly, should there be a percentage installed-capacity limit to allow the program to be considered in more depth)?
- What should be policymakers' (the legislature, the PSC's, and co-op governing boards') role in overseeing the net metering program?

# Questions?



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